IS THE UNITED STATES TREASURY RESPONSIBLE FOR THE PRESENT MONETARY DISTURBANCE?

During the depression (1893-1896) an empty Treasury was pointed to by leading financiers and public journals as the great gulf that stood between the American people and "sound currency." To-day, six years later, these same financiers and journalists are pointing to a Treasury "filled with gold" as the cause of the present financial disturbance and as the portender of national calamity. "Through the operation of law," says one prominent in financial circles, "the Sub-Treasury is piling up needless amounts of gold and withdrawing from the banks currency to the embarrassment of business everywhere." "The vast sums locked up and kept out of circulation!" This is the central thought in notes of warning. The Secretary of the Treasury sets forth his alarm in Government documents; directors of banks and managers of counting-houses give expression to fear by interview and public address; oracular utterances of men of affairs are reiterated in editorial comment, enjoining the people of the United States that new legislation is needed to *give circulation* to the millions "hoarded by the Government."

Among the remedies suggested are: (1) greater power on the part of the Secretary to receive listed stocks and bonds as security for Government deposits; (2) the abolition of the Sub-Treasury system; (3) the substitution of the entire money functions of the Treasury by a system of private banking. As representing the last view we have the plan proposed by President Hirsh of the State Bankers' Association of Pennsylvania in his annual address before the recent meeting held at Philadelphia. Ex-Comptroller Eckels joins with Mr. Hirsh in this general view and in addition would have the financial powers of the Government reduced to those providing revenues for its own expenses, the revenues when collected to be placed in the banks and disbursed through them.[1] All of the

[1] "All the Government financial operations, whether they be receipts or expenditures, should be carried on through the banks, on the same basis as the vast operations of the world of ordinary business. The Government needs neither a strong nor a working balance wholly disproportionate to its daily operations." Mr. Eckels would have the Sub-Treasury abolished. Secretary Shaw's recent action in construing his power to extend to the acceptance of listed securities as collateral for Government deposits is quite generally lauded by banks and financial houses.

remedies suggest that "the vast sums at present stored away in Washington" shall be placed at the disposal of private banks in order that they "may be used by the community in business enterprise." Before accepting these conclusions, common prudence would suggest that we inquire into the premises on which they are based. Before the public is asked to adopt these proposals as remedies for present evils, inquiry should be made as to the effect of removal of reserves of government on the money system now supported by them. In conclusion it should be known (1) what is the malady with which the financial world is afflicted and (2) if changes in the system are to be made, then what are the conditions necessary to success.

What is the Amount of the Government "Hoard?"

The whole propaganda directed toward currency revision and the abolition of the monetary functions exercised by the Treasury is based on the data obtained from the published reports of the Secretary of the Treasury. A financial exhibit of available resources and demand liabilities is reproduced on page 21 following.

Without going into the question as to whether the entry "available cash balance $209,491,500" is a result which may be safely used as a basis for argument; without considering whether or not "United States Notes," in the vaults of the Treasury may properly be stated as an asset of the Government; without inquiry into the practice of counting both the "certificates" of deposit, and the "gold" deposit against which certificates are issued, on the same side of the balance sheet; without questioning the valuation of "silver" as equal to the *face* of the coins on which the stamp of the Government is placed, making them an obligation to pay gold; without even taking exception to a statement of *available assets* and *demand liabilities* in which are omitted all of the demand liabilities arising out of the obligations of the Government to meet its promises to redeem credit moneys outstanding,—except those included in the statement of Trust Funds; in other words, for the time being not questioning the correctness of the statement of *free balance* in the Treasury, we first pass to a consideration of the amount of gold "hoarded" by the Government—the implied object of present attack.

Cash Assets of the Treasury.[2]			
Reserve fund:			
Gold coin and bullion	. . . .	$150,000,000.00	
Trust funds:			
Gold coin	$359,390,089.00		
Silver dollars	458,785,000.00		
Silver dollars of 1890	491,756.00		
Silver bullion of 1890	27,209,244.00	845,876,089.00	$995,876,089.00
General fund:			
Gold coin and bullion	$ 61,912,543.62		
Gold certificates	52,745,150 00		
Silver certificates	6,427,977.00		
Silver dollars	12,593,623.00		
Silver bullion	3,361,329.81		
United States notes	5,539,242.00		
Treasury notes of 1890	78,250.00		
National bank notes	14,725,311.82		
Fractional silver coin	10,351,174.05		
Fractional currency	161.46		
Minor coin	1,010,576.41		
Bonds and interest paid, awaiting reimbursement	40,082.58	$168,785,421.75	
In national bank depositories:			
To credit of Treasurer of United States	$118,065,497.70		
To credit of United States disbursing officers	7,316,672.00	125,382,169.70	294,167,591.45
Total	. . . .	. . . .	$1,290,043,680.45

Demand Liabilities.			
Gold certificates	$359,390,089.00		
Silver certificates	458,785,000.00		
Treasury notes of 1890	27,701,000.00	$845,876,089.00	
National bank 5 per cent fund	$ 14,280,174.21		
Outstanding checks and drafts	6,684,214.25		
Disbursing officers' balances	55,358,648.25		
Post Office Department account	5,844,780.47		
Miscellaneous items	2,508,273.66	84,676,090.84	$930,552,179.84
Reserve fund	. . . .	$150,000,000.00	
Available cash balance	. . . .	209,491,500.61	359,491,500.61
Total	. . . .	. . . .	$1,290,043,680.45

Cash balance in the Treasury July 31, 1902, exclusive of reserve and trust funds	$203,974,599.00
Cash balance in the Treasury August 31, 1902, exclusive of reserve and trust funds	209,491,500.61
Increase during the month	$5,516,901.61

[2] See Monthly Summary, August, 1902, page 488.

According to the published report above set forth, the gold in the Treasury is as follows:

Trust funds for redemption of certificates	$359,390,089
Reserve in the department of redemption	150,000,000
Gold in the general fund	61,912,543
Total	$571,302,632

The first item, $359,390,089, is stated as a Trust Fund. This amount of gold coin is not the property of the Government. It is a special deposit and belongs to the holders of "certificates" issued. The Government has no rights with reference to the "coin," other than to hold it, as a custodian, subject to the demands of owners. From considerations of economy to the business world, and at the instance and request of the banks (to save them the cost of keeping and handling gold), the Government has seen fit to offer to holders of "coin" the privilege of depositing it in trust, and to allow the "certificates" to be used as a more convenient form of currency. Leaving out of account, therefore, the gold which the Government does not own and over which it has no control other than as keeper or bailee for the owner, the total amount of gold in the Treasury is reduced to the two items remaining.

Is the Gold in the Treasury Unused?

The conclusions which have been reached and which have been used for the purpose of further argument are: "that the gold which is amassed at Washington is *idle money;* that the accumulation of a surplus there has contracted the circulating medium; and that this has forced the banks to withdraw their support from legitimate enterprise." In the first place, let us consider whether or not the gold of the Government is "unused" or "idle funds." What is the work of the $150,000,000 reserve? Directly it has to keep in circulation $346,681,016[3] of United States notes. These in turn support $358,984,184[4] of bank notes.[5] There are outstanding $447,445,542[4] silver certificates and $28,638,585 Treasury notes of 1890[4], which are intermediately payable in gold. The silver obligations are primarily payable in silver, to be sure, but under the law of 1900, pledg-

[3] Monthly Summary (August, 1902) p. 487.

[4] *Ibid.*, p. 489.

[5] The bank note is payable in legal tender, and legal tender is payable in gold.

ing the Government to the support of the gold standard, silver dollars are in turn promises of the Government to pay gold. The Government, therefore, has not only to support the outstanding silver certificates and Treasury notes of 1890 but it must also stand ready to redeem outstanding silver coins amounting to $158,399,962.[4] For like reason all the outstanding fractional currency, $6,873,323, and minor coins, about $33,000,000[6] are a charge on the gold reserve. Assuming that the legal reserve stands sponsor for these demand obligations arising out of the currency, a representation of the "use" of the $150,000,000 of gold would be as follows:

Currency Demand Liabilities Outstanding Against Gold Reserve

RESERVE IN REDEMPTION DEP'T.		OUTSTANDING LIABILITIES.	
		U. S. notes..........	$346,681,016
		National bank notes ..	358,984,184
		Silver certificates.....	447,445,542
		Treasury notes (1890)	28,635,585
Gold coin	$150,000,000	Silver coins outstanding redeemable in gold..............	155,128,925
		Fractional currency ..	6,873,323
		Minor coins redeemable in gold, about..	33,000,000
		Total	$1,375,748,575

From the above it appears that the $150,000,000 in the Treasury maintains in circulation at a par with gold about $1,375,748,575 of credit currency which takes its place in the business world and is sought for in preference to gold itself.

The $61,912,543 of gold in the "General Fund" alone remains to be considered. To this may be added the $52,745,150 in the Trust Fund represented by the "gold certificates" in the General Fund. Has this any work to do? During the year the Government incurs demand liabilities for current expenses amounting to about $500,-000,000. This must be met, and those holding claims against the Government have a right to demand gold. In the first place, there-

[6] Report of Director of Mint, 1901.

fore, the $114,657,693 which may properly be considered as "gold" in the general fund is held as a 10 per cent reserve against current expenses of government. When exigencies arise, when current expenses are increased or revenues decline, when for any reason the gold income of the Government falls off or demands are enlarged, the gold supply begins to disappear. The disappearance of gold from the general fund is always a cause for anxiety; when it begins to approach exhaustion, an impairment of the $150,000,000 reserve is threatened; as a result, public confidence in the whole currency system begins to waver and the credit base, both public and private, is brought into peril. The dire results of the disappearance of the margin and of failure to protect the reserve, is still held too vividly in mind, the dark days of 1893 still form too sombre a background for us to lose sight of the picture. The gold in the *General Fund,* therefore, not only serves as a guaranty of obligations arising out of current expenses but it stands as a buffer or outer wall to the currency reserve—a second support to the immense superstructure of credit which it is the duty of the Treasury to protect, and which serves us with $1,375,748,575 of credit money "as good as gold" with the actual use of only $264,657,693 worth of the yellow metal. Leaving out of account the legal limit and considering as a reserve for the support of outstanding credit currency, all of the gold in the Treasury that is owned by the Government, it is found that a reserve of only about 18 per cent is held against the currency demand obligations that may be brought to bear on the Treasury.

The *work* of the gold in the Treasury, however, has not yet been accounted for. These various forms of money are allowed to be held and to be counted as reserve for the payment of deposits in the national banks; they are also, in fact, held as reserves for like purpose by all financial companies receiving deposits. The total deposits of such institutions in 1901 were as follows:

Deposits of Commercial Credit Institutions in the United States[7]

National bank deposits	$3,035,662,506
State bank deposits	1,610,502,246
Loan and trust company deposits	1,271,081,174
Private bank deposits	118,621,903
Savings bank deposits	2,517,599,536
Total deposits	$8,553,467,365

[7] See Report of Comptroller of the Currency, 1901.

The credit obligations or "loans" held by these institutions are even larger. $8,553,467,365 of the current commercial credit obligations of financial companies, any portion of which might be brought to bear on the Treasury of the United States, must be added to the direct burdens of the currency. Making a deduction of the credit money held by the banks themselves as reserves, the amount of current funds for which the gold in the Treasury is responsible will be something like $9,500,000,000. In other words the actual gold in the Treasury is only about 2.8 per cent of the current gold-bearing obligations extant. Its work is not yet accounted for; this is only the support given to different forms of current funds—current media of exchange. Besides this we must take into account the immense demand and time credits dependent on current funds for means of payment. The banks alone hold about $10,000,000,000 of credit obligations. All told it is thought that there are outstanding not less than $40,000,000,000 of credit that must be met by the media supported by the Government. To say that the gold in the Treasury is not used; to complain that too much gold is there locked up, is like constructing a church, using the steeple for a base, and then complaining because so much material had been wasted in the foundation. The only protection that the Treasury has in time of extraordinary gold demand is found in the coin of that character in the vaults of the banks or in general circulation, which tends to supply outside needs without invoking the support of the Treasury. *This, we may say, is our currency situation.* This is the system of current funds with which we, as a nation, are doing business. This is the gold "hoard" in the Treasury that is being made the first premise of an argument directed toward the withdrawal of the very foundation of the whole money and credit system —toward the weakening of the base of a credit structure, an impairment of which might cause the card house in which we live to tumble about our ears.

Has the Circulating Medium of the United States Been Reduced?

The claim is made by the opponents of the present Treasury system that the circulating medium—the currency—of the United States has been reduced by having it withdrawn from circulation and locked up in the Treasury. An inquiry into the justice of such a criticism necessarily takes two forms. In the first place, has the

money circulation been reduced? In the second place, has the deposit or *commercial credit currency* been restricted by virtue of the accumulation of gold in our Treasury during the past few years? The first query is answered by the Bureau of Statistics, a representation of which is made below.

Increase in Money in Circulation

	December	$1,980,398,170
1900	January	2,003,149,355
	February	2,002,931,791
	March	2,021,274,506
	April	2,060,525,463
	May	2,074,687,871
	June	2,062,425,496
	July	2,087,353,408
	August	2,096,683,042
	September	2,113,294,983
	October	2,139,181,412
	November	2,158,761,367
	December	2,173,251,879
1901	January	2,190,780,213
	February	2,190,609,144
	March	2,187,243,580
	April	2,195,304,235
	May	2,184,576,890
	June	2,177,266,280
	July	2,189,567,149
	August	2,197,789,824
	September	2,227,188,491
	October	2,246,300,542
	November	2,250,256,230
	December	2,250,627,990
1902	January	2,259,951,709
	February	2,253,969,259
	March	2,252,047,357
	April	2,260,750,242
	May	2,254,415,975
	June	2,246,529,412
	July	2,260,606,137
	August	2,264,932,945

The Comptroller of the Treasury in his Report on the deposits, loans and discounts of national banks (see page 27) is quite as significant with reference to the second.

Such was the record of loans and discounts of banks during the time that the Treasury was amassing its enormous reserve complained of. Instead of there being a steady contraction the expansion of commercial accommodation was marked, both in the circulating money and in bank loans. But these showings do not indicate the real importance of a sound and stable currency maintained by the accumulation of reserves and the guaranty of redemption of the credit currency which is found in the Treasury system. This may be put in the clearest light if the question is asked: What would be the effect on the credit-money and on the commercial currency of the United States if these reserves were not protected—if there were the slightest question raised as to the ability of the Government to maintain reserves sufficient to support the enormous credit imposed?

Increase in Accommodations of National Banks from 1897 to 1902 (In Millions of Dollars).[8]

Loans and Discounts of National Banks of the United States.		Loans and Discounts of Clearing House Banks of New York.		Loans and Discounts of Banks Outside of New York.
1897—March 9	$1,886,2	…	…	…
May 14	1,923,3	…	…	…
July 23	1,966,8	…	…	…
October 5	2,051,0	…	…	…
December 15	2,082,6	…	…	…
1898—February 18	2,138,0	…	…	…
May 5	2,097,0	…	…	…
July 14	2,151,7	…	…	…
September 20	2,155,9	…	…	…
December 1	2,214,3	…	…	…
1899—February 4	2,299,0	4	$741,5	$1,557,5
April 5	2,403,4	8	778,7	1,624,7
June 30	2,492,2	July 1	786,8	1,705,4
September 7	2,496,7	9	747,6	1,749,1
December 2	2,479,8	2	682,1	1,797,7
1900—February 13	2,481,5	10	720,7	1,760,8
April 26	2,566,0	28	774,5	1,791,5
June 29	2,623,5	30	808,4	1,815,1
September 5	2,686,7	8	818,8	1,867,9
December 13	2,706,5	15	792,7	1,913,8
1901—February 5	2,814,3	2	871,8	1,942,5
April 24	2,911,5	27	884,4	2,027,1
July 15	2,956,9	13	868,4	2,088,5
September 30	3,018,6	28	867,6	2,151,0
December 10	3,038,2	7	881,5	2,156,7
1902—February 25	3,128,6	22	936,7	2,191,9
April 30	3,172,7	May 3	904,1	2,268,6
July 16	3,221,8	19	903,3	2,318,5

[1] Monthy summary of Commerce and Finance.

What is the Malady with which the Financial World is at Present Afflicted?

It is affirmed by Mr. Eckels that the Government is to blame for the present financial situation. "The evil of the present condition is in a large measure chargeable to the Government itself. It is not the fault of the man of affairs, whether he be a merchant or a manufacturer, nor that of the banker, nor even the speculator in stock on the Exchange." It is just here that serious question might again be raised—issue may again be joined with Mr. Eckels and all those who, for similar reasoning, have reached like conclusion. An "analysis of the situation," such as he recommends, discloses the fact that the present monetary tension is in Wall street, and one in which both banker and speculator are involved—we may say one for which they are largely responsible. Those who are at this time pointing to the Treasury as the pitfall in the path of prosperity are not only overlooking the present practice of banks in the management of their reserves and the relation of the banks of New York to the enormous speculation going on in that city, to which the banks are lending chief financial support, but they are also losing sight of the past history of the reserve system in every financial crisis since its inauguration. They point to the few millions of excess of revenue over disbursements of government as the leading cause of disturbance, overlooking the fact that during this period the increase in Government deposits has been greater than the amount of this excess. They point to the withdrawal of funds from New York to the country, but neglect to mention that the New York banks have voluntarily incurred this liability and have failed to make the necessary provision for meeting it. They suggest that this is an unusual or extraordinary demand on their reserves, but do not charge themselves with the knowledge that the country banks each year, and about this time, are expected to make use of their reserves. In none of the many addresses and editorials current is anything said calling attention to the practice of banks under the present reserve system—the practice on the part of country banks of loaning all but 6 per cent of their legal reserves to "reserve city" banks; of the practice of the "reserve city" banks of loaning all but 12 1-2 per cent of their reserve to the "central reserve city" banks, and still computing these loans as a part of their cash. It is not hinted that these so-called reserves

of other banks, held in New York, are again loaned to speculators for the purpose of giving support to margin dealing. Yet the fact remains within the knowledge of all that in every financial strain since the foundation of the present reserve system there has been a repetition of the situation which now confronts us and which in the end has in each case reacted on the business interests of the country. The only difference is that many of the leading banking institutions of New York are at present controlled by the promoters and underwriters of speculative enterprise.

The financial death-trap with which we as a people are playing is seen in clearest outline by analysis of the Comptroller's report.[9] From this it appears that on September 30, 1901, the banks of "Central Reserve Cities" (banks of the Class I) owed to all other national banks, *as reserve agents,* $368,400,000, of which amount $252,400,000 was due from the banks of New York. The amount due to "Reserve City Banks" (banks of Class II) was only $168,700,000. This leaves a balance of $199,700,000. The location of rights to this balance is made quite clear. If it is not owing to "Reserve City Banks" then it must be owing to the "Country banks." That is, Class I owes $199,700,000 directly to Class III without the intervention of Class II. If we estimate the amount of the reserve demands on New York, in proportion to its holdings, the showing would be approximately as follows:

Reserves of Other Banks Loaned to New York

By country banks (Class I)	$135,000,000
By reserve city banks (Class II)	115,000,000
By New York banks	2,400,000
	$252,400,000

This, somewhat intensified, is the situation at the present time. From the above showing is made clear the reason for the present *money* tension in New York. *A demand for reserves is a demand for money*—not a demand for credit exchange. It is a demand for liquidation of credit by payment of money. When the "country banks" or the "reserve city banks" or St. Louis and Chicago (the other "central reserve city banks") find that they can sell enough of their credit to advantage, to require the presence of more money in

[9] The report of 1901 is here taken, this being the last one published

their own vaults, they call on their New York agents to send home the amount of money needed. The money demands from the twenty-nine "reserve city banks" for which New York must meet if required, was $115,000,000 and the amount of "country" money reserves for which New York must go to the money market if requested was $135,000,000. If, perchance, it happens, as is the present case, demands come in from National Banks from all parts of the country at the same time, New York may be asked to find $250,000,000 "on call."

But this is not the only snare that the New York banks and their financial customers have laid for themselves. In addition to the demand *money* obligations that the New York banks have assumed in the form of "reserves" of other national banks, they have become the central depositories of State banks, and Loan and Trust Companies. To the former class New York owed $73,400,000 and to the latter $99,100,000. Thus to the $250,000,000 of money demands from National Banks about $172,500,000 may be added. In short, on September 30, 1901, the New York banks stood in the unenviable position of having to deliver over $422,500,000 of money on demand—or to put the New York situation in terms of speculation, the banks have made a "short sale" of $422,500,000 of money to other financial institutions, to the delivery of which these institutions look for reserves. The other "reserve city banks" add to this more than $200,000,000 more of reserve demands.

The banks attempt to justify such practice by a system of "call loans." It is claimed that, when the reserves are loaned "on call," they are available at any time they may be needed; and by putting out the reserves in this way so much more money is put into circulation which otherwise would be locked up and remain unused. There are at present over $300,000,000 loaned by the banks of New York "on call," and quite as much more in the other twenty-eight reserve cities of the country—about $600,000,000 of loans "on call." If these loans are "available" for the purpose of maintaining the reserve, then why do the banks in distress appeal to the Secretary of the Treasury to come to their aid and send over a few millions to tide over a strain? It is a known fact that a large part of these are on "margin" speculation. The listed price of collaterals held against such loans is only about 10 per cent in excess of the loans. With low-priced stocks 20 per cent is taken. To "call" these loans would

break the market and force the banks to take collaterals which, if sold, would leave a deficit. In other words, by this system banks and speculators are on such occasions bound together hand and foot. To break the market would break the very foundation on which both stand. To bankrupt the speculator would drag down the bank—would probably bankrupt it also.

Will the Remedies Proposed Prove Effective?

The remedy most commonly proposed is that the Government should deposit its revenues and reserves with the commercial banks. While retaining the present system of bank reserves will this remedy prove effective? The increase in deposits of the Government in the national banks is shown by the following table taken from the last Report of the Treasurer:

Deposits of the United States Treasury in the National Banks

DATE.	Amount.	DATE.	AMOUNT.
1898, August	$16,661,579	1901, August	$103,035,834
1899, August	80,888,712	1902, August	126,152,991
1900, August	96,064,261	1902, October	133,932,197

From the foregoing one conclusion is certain—that there has been an ever-increasing fund poured into the banks by the Government. Within six years the deposits of the Treasury have been increased from $16,600,000 to $134,000,000. Instead of easing the money market speculation has increased even more rapidly. With each strain in Wall street the Treasury has come to its relief. This has temporarily eased the situation, but when the strain was past, the Government deposits remaining, instead of the banks adjusting credit on a basis to avoid future difficulties by forcing speculation to liquidation, this new and enlarged basis of credit has been used as a broader foundation on which to rear a new and more dangerous superstructure. New credit capital has been supplied to carry still larger speculative deals and syndicates, for the underwriting of issues in companies that promoters would have absorbed by the public. Even in the present crisis enormous syndicate-holdings are waiting only to unload before undertaking projects of still greater magnitude. Washed-sales, professional buying, every device known to the craft, is employed to keep the market from breaking till the inside get out from under. Then, money being easier on this

new capital turned over by the Government, speculators will be ready for another plunge so long as the banks will take their securities as a basis for credit. The extent to which the banks have increased their support to speculation may be noted from the following:

"Call Loans" on Collaterals by the National Banks of New York.[10]		"Call Loans" on Collaterals by the National Banks of 20 "Reserve Cities." [10]	
1897, October 5......	$145,012,501	1897, October 5......	$100,593,855
1898, September 20 ..	170,224,464	1898, September 20...	112,315,767
1899, September 7....	228,081,518	1899, September 7....	189,009,000
1900, September 5....	254,624,961	1900, September 5....	178,497,480
1901, September 30...	271,088,313	1901, September 30...	213,769,127
1902, September 1....	[11]313,000,000	1902, September 1....	[11]225,000,000

Though the loans of like nature for both the other "central reserve cities" (Chicago and St. Louis) are only about one-seventh as large as those for New York, the same percentage of increase may be observed. What might we expect if the Sub-Treasuries were abolished and all the reserves and money resources of the Government were deposited in the banks? The banks certainly would not keep them. Our commercial craft can scarcely ride the present sea; to increase the flood could not do more than make it more dangerous. The effect would be like that in Jackson's time when he turned the reserves of the Government into commercial channels. Speculation was already dangerous. Instead of permanently increasing the circulating medium, by withdrawing the credit foundation, the whole structure fell and the available currency became so far constricted that the public was reduced to the necessity of doing business with private-issues or "shin-plasters" as they came to be called. At present the reserves of the Government are serving a double purpose: (1) maintaining a credit circulation far larger than the banks could maintain with safety, and (2) coming to the relief of private credit institutions in time of financial strain. In their efforts to uphold the market the banks cast about for some means of support adequate to the emergency. Beholding the ample funds of the Government they say "Give us these and our credit will be

[10] Report of Comptroller, 1901.
[11] Statement taken from current financial news.

saved." But abolish the Treasury system, place the funds of the Government in the banks, and at the same time retain the present system of banking reserves—a quagmire as a foundation for credit —then, when a monetary stringency occurs in Wall street, whence will come relief?

Should the Government Go Out of the Credit Money Business?

Mr. Eckels and others of accredited authority would have the Government go out of the credit money business. "The Treasury Department in every government should find exercise of its legitimate functions within the confines of collecting, under the law, the needed revenues for the conduct and maintenance of the Government in all its departments and the disbursement of the same." He affirms that "the Government needs neither a strong nor a working balance wholly disproportionate to its *daily operations*. When it keeps the one or maintains the other, it makes itself a disturbing factor." In other words, its "daily operations" with reference to its own "disbursements" are all that need be provided for, and these should be carried on through private banks. He would have all our credit currency provided by banks. This is another conclusion drawn from the antiquated doctrine of *"laissez-faire"* that may well be questioned. With a primitive people, formal acts of government may not be necessary to the choice or use of a common commodity as money. From mutual advantage a common practice may grow up; commodities which in their nature may be used as a common standard for the comparison of value (such as cattle or furs) may serve the purpose of exchange. But those substances which best lend themselves to the more exact judgments necessary to the broad and complex commercial relations of to-day (gold and silver) have no such marks of individuality and of quality stamped on them by nature as may protect the trader against deception and loss. For example, one of the characteristics that makes gold serviceable as money is the high value imputed to small quantities of the metal. Another is the exact uniformity of weight and quality that can be given to each piece, but these divisions and refinements are purely artificial; by nature they have no uniformity, they have no individual completeness as in the case of cattle or furs, and a few grains added to or taken from a piece of gold may so materially affect its value as to destroy the serviceability of a coin as a standard for judgment. Some common

unit of weight and fineness is essential. Private parties and private business houses being controlled by motives of gain may not be relied on to give character to, and to protect the integrity of coins; the Government—the agency of the people, devoted to *general* welfare as opposed to *private* welfare—must give the metal official stamp such as will stand as a guaranty and will protect the people against the wiles and arts of designing individuals. A standard coinage established and protected by government is a necessary part of the mechanism of exchange and to the work of providing this and maintaining it in strict integrity are established the mints of the world as departments of state.

Quite as necessary is a *complex* system of money. As a nation we have adopted the gold standard as the basis of our system; but gold does not serve well all the uses of money. The necessity for carrying about and transferring such quantities of money material as will be of great value may suggest the use of the more precious metal for large transactions. Gold serves well the use as a standard of value, it also may be found convenient in transfers of from five to twenty dollars; for transactions of larger amount its use is expensive, besides pieces of gold representing values less than five dollars are easily lost and are inconvenient. For small change, silver and baser coins have been found more convenient than gold. Such is the economy of a variety of metals, that in cases when the Government has failed to supply it, private coinage and other temporary devices have been resorted to by the people to supply the need. The practical question for the nation and for the commercial world at large is: How can the advantages of a *single standard* (or a definite unit for the judgment of value) be preserved and at the same time the unquestionable economy of *variety* in the system of money be maintained? Long and bitter experience has driven men to the conclusion that there is only one solution, viz, *the establishment of a unit or standard in the more precious metal, and a system of redemption of all other forms of money used, at a fixed and established ratio.*

Redemption, however, has the effect of reducing all moneys other than the standard to forms of credit. By this, they constitute promises to pay a definite amount of standard money according to the ratio of redemption stamped on their faces. But the use of credit money does not logically stop with redeemable coin. If a sys-

tem of money is developed whereby coins become promises of the Government to pay gold, what is there to prevent the Government from writing these promises on paper and passing them in payment? There is no reason at all, provided the Government at all times keeps itself in condition to meet these promises; and if it does not, then silver dollars, or copper coins, would depreciate as well. Government credit stands on no different footing than private credit. The value of the promise depends on the judgment of the individual receiving it as to the ability of the Government to fulfill its obligations. In our system, paper money is nothing more or less than a demand obligation on the Government to pay gold on call; it must at all times be in such condition that no doubt will be entertained on this score. The only manner in which Government credit differs from private credit lies in the different methods which may be employed by the Government to obtain gold with which to pay, and this applies as well to its redeemable coin as to its paper. When provision is made to meet the credit promises of the Government, then, by reason of its greater economy, paper at once takes the place of coin. So great are the economies of paper money, when placed on a basis of prompt redemption, that the metals are largely deposited. With us, they find employment in vaults, where they may be stored as reserves—the entire business of the country has gone over to a credit or token money basis. The present efficiency of our money system, however, depends on the Government, and so long as the present money system is retained the Government must be looked to to furnish the machinery by which the currency of the country may be preserved in its integrity and present usefulness.

The machinery with which the Government is equipped to perform its monetary functions must embrace three distinct plants: (1) a mint for giving official stamp and guarantee to its coin; (2) a redemption agency for the safe keeping of reserves and for free interchange of the several forms of money used, as the one or the other may be considered more desirable; (3) a revenue department by means of which the necessary funds may be procured to keep its reserve intact. These three plants must necessarily remain under the control of the state till the government decides to go out of the credit money business. All three are combined in the Department of the Treasury. Our Independent Treasury may be said to be the key to our whole system of finance.

In some respects our Treasury system is unique—enough so to warrant an account of the conditions leading up to its establishment. Before the panic of 1837 and the financial depression which followed, the Government had made various incorporated banks its depositories as well as its disbursing agents. The first Bank of the United States was chartered in 1791 and continued in operation twenty years. In 1816 a second Bank of the United States was organized by the Government under a twenty-year charter. During forty years of the period from 1789 to 1837, therefore, the Government had a bank of its own creation and subject to its own control as its financial agent. At three different intervals, covering in all a period of eight years, it had to depend on banks operating independently—state banks. The independent institutions were so far removed from the direct control of the central Government that the currency and finances of the country were left in a state of uncertainty. As a result industry was paralyzed—private as well as public business was seriously handicapped. The charter of the second Bank of the United States expired in 1836. At that time arguments similar to those which we now hear were used against the Bank of the United States; the final result was the removal of the deposits of the Government to state banks. The crisis of 1837 proved fatal. The Government lost through its private bank depositories $28,101,644.91, at that time an enormous sum. The losses of the people through uncertainty of credit and through the fluctuation of their monetary standard were many times greater than that of the Government. There was a general demand for a change. Van Buren had just come into office when this financial calamity occurred. In national politics he represented Jacksonian democracy —state and local interests as opposed to centralized functions of government. They were adverse to the chartering of a third Bank of the United States; wishing to meet the public demand for a sound and stable currency and at the same time to avoid a monopoly over commercial credit such as had existed under the old régime, an Independent Treasury was proposed. After three years of political controversy the Van Buren measure became a law, but so unpopular had the administration become by reason of the financial and industrial depression of the time that, in 1840, the opposition carried the country and Harrison and Tyler were elected. The opposition was a "fusion" party; Harrison was the representative of the

old-time Whig, a nationalist in sentiment. Tyler was the choice of the "nullifiers"—an ultra-branch of the States-Rights party. These two groups, hostile to the administration, joined forces to defeat the party in power; but when their common enemy had been overthrown (being hostile in doctrine and interest) they fell to fighting with each other. The Whigs favored a central bank as a solution for the currency and credit disturbance and had Harrison lived, the large Whig majority in Congress under the leadership of Clay, without doubt, would have given us a different financial history. A month after inauguration the President died and Tyler came to be our chief executive. Harrison and his party had pledged themselves to the repeal of the provisions for the Independent Treasury and to the incorporation of the third Bank of the United States. Tyler announced his intention to carry out the measures inaugurated by Harrison. While the measure creating the bank was under conference and discussion, a breach occurred between the States-Rights President and the Whig Congress, which widened until open war was declared between the factions, and the bill, having passed both Houses, was vetoed by the President. From this time no quarter was given. The "nullifiers" having the administration in their own hands, and the Whigs in Congress, being in control of the law-making power, a deadlock existed until the issues were carried before the people and the party of the Independent Treasury returned Polk as President. In 1846 Van Buren's scheme for the separation of the *monetary functions* from the *commercial credit* institutions of the country was established and has since stood as an essential part of our financial system. It has been through this—the Independent Treasury—that our Government has been able to furnish to the nation the most highly refined system of credit money known to the civilized world, and at the same time to maintain this system with such integrity that to-day a note of the United States Government will pass in China or India, in South Africa or Europe, "as good as gold;" and if refinement of credit is to be upheld as the *desideratum* of a monetary system the Treasury of the United States has been a most successful monetary institution. It is this credit system of money that has given to the people of the United States a most economic form of currency.

What Would the Abolition of the Sub-Treasury Cost the Banks?

Some of the leading bankers and financial writers have expressed themselves with emphasis as holding to the belief that the reserves of the Treasury should be removed to the banks, and that the banks should furnish all of the credit-money of the country. One conclusion seems beyond question, that the removal of reserves of Government would practically compel the adoption of a bank currency; that is, to take away the gold reserve, would be to take away the foundation on which about $1,400,000,000 of credit money now rests. The result would be to make all the outstanding credit money of the Government, as at present issued, useless either as a medium of exchange, or as a reserve for the redemption of private or bank credit. To remove this foundation would compel the various banking institutions to find some other support for over $9,000,000,000 of deposits and credit circulation. To restate the work of the gold reserve in the Treasury, the $265,000,000 of government gold, in the reserve and in the general fund, supports and maintains on a par with gold $1,400,000,000 of credit money. This gold together with the gold held by the banks in their own vaults and in the vaults of the Treasury, represented by "certificates," making about $600,000,000 all told, is used to give support to about $8,500,000,000 of deposit currency, making a total of about $9,500,000,000 of credit money and deposit currency after deducting the credit money held by the banks. In other words, under the present Treasury plan only about 6.3 per cent of standard money reserve is required to maintain the current funds used to meet about $40,000,000,000 of private credit. To remove this narrow foundation, this narrow pillar of gold on which stands this immense superstructure of credit, would cause wholesale havoc. The only way to avoid general disaster would be to remove the credit load to another base before pulling out the foundation.

The new basis for business proposed in substitution for the Treasury issues is an assets bank currency. In this relation another conclusion would seem warranted; that if the American people were to consent to such a shifting of the credit base, they would have to be assured that this foundation would prove as "solid" a basis for credit as the present Independent Treasury. To give this assurance some provision must be made whereby each bank of issue

would be compelled to keep a money reserve in its own vaults adequate to meet its demand obligations—both deposits and issues. What would such a change involve? Without the Independent Treasury to support Government credit money, of what could such a money reserve consist? Clearly it would have to be legal tender for payment of debts. As a nation we have announced our intention to maintain the gold standard. Without the present machinery of government for the redemption of credit money issues what forms of money could safely serve as legal tender? If we maintain the gold standard as a basis for business judgments of valuation, nothing but gold itself would serve. In other words, each bank would have to carry a gold reserve large enough to redeem both issues and deposits when payment is demanded. The experience of banking institutions has been that a much larger standard reserve would be needed than that at present carried by the Treasury and the banks together. Instead of having $265,000,000 as a redemption fund for obligations resting on the currency, $106,000,000 of gold held by the banks, and $220,000,000 of gold (represented by Trust Fund "certificates") kept by the Government and other depositaries for the banks,[12] (judging from the amount of gold held by banking institutions in Europe, where the governments have not intervened with a credit currency supported by an Independent Treasury, and from the amount of banking reserves at present required in the United States) the amount of gold necessary for the support of a banking currency would be from two to three times the amount at present required. It is not the purpose of this paper to offer anything by way of discouragement of a system of bank money, nor bring such a system into unfavorable comparison with our present plan of Government credit money—only to point out that to act with safety and to prevent the recurrence of serious monetary disturbance such a change would involve much larger use of gold in the form of reserves.

The increased cost of such a system would be three-fold (1) increase in investment cost (2) increase in operative expense (3) greater inconvenience in use. If the banks were to provide a credit currency as large as that at present outstanding (the amount demanded to meet the current needs of business) the first cost of the added gold necessary would require large initial investment by the

[12] Treasury Report, 1901, p. 414.

banks; the cost incident to safely keeping and handling this gold would be an added current expense; the inconvenience of handling metallic instead of paper reserves would have to be overcome by the creation of depositories and redemption agencies to be supported by the banks. Beside the political question of the expediency of shifting from a system of government credit money over to a system of bank issues, a question of administration would also arise, as to whether such a system as that proposed could be made stable and sound without a great central bank of control similar to the Bank of England, the German Reichsbank, or the Imperial Bank of Russia.

What the Situation Demands

Under any system of currency the present reserve plan would stand as a menace to sound financial institutions. If present banking practice with reference to reserves is the chief source of weakness in our financial system, this is the first to receive treatment. Forty years of bitter national experience is enough to prove that so long as banks are allowed to loan their reserves to each other and still have these loans count as a part of their legal cash requirement, they will continue to pour into New York in dull seasons funds which will find employment there in speculation, thus endangering the whole system of commercial credit. Its weakness may be summarized as follows: (1) by commingling the resources of the many commercial banks, all effort to compel each institution to stand on its own credit foundation is rendered ineffective; responsibility is shifted, and all suffer together for the follies of the improvident; (2) a situation is created which allows the regular commercial demands of one section of the country to withdraw support from the credit of another section and precipitate a crisis that reacts on the business interests of all; (3) it forces the banks—institutions organized to foster legitimate business—to withhold funds from a commercial and industrial use when needed in order to give support to speculation; (4) it gives encouragement to hazardous forms of financiering, assists in the promotion and underwriting of companies and syndicate operations that have forced a market for their issues, by receiving their issues as security for loans until this evil in the national banking system is remedied, neither assets banking nor any other credit base will be safe.

That the remedy should be adequate to alleviate the distress

goes without saying. The banks cannot be relied on to act voluntarily, else they would have done so long since; the fact is that this practice has grown up among banks in the face of Government opposition and warnings of Comptrollers. The remedy must come from legal control, to protect the conservative banker against the foolhardy practices of the adventurers. There seems no other conclusion than that the National Bank Act should be amended in such manner as to require each institution to keep its own reserves; and as has been suggested by Dr. Bolles, to take away the inducement for loaning between banks, to forbid the paying of interest on deposits made by all institutions authorized to receive deposits from customers.

The only question that remains for consideration in this relation is as to the amount of reserve a bank should be required to keep. It is suggested that the reserve required should in all cases be equal to the subscribed capital and surplus. The reasons for this lie in the very nature of things. What is the purpose of capital funds in a business? Capital funds are those collected or brought together in an enterprise for the purpose of supplying it with its necessary permanent equipment. The capital of a railroad should be sufficient to provide it with road-bed, tracks, rolling stock, depots and terminal facilities, besides to give it an amount of "cash" sufficient to carry on its regular business. This is supplied by capitalists, investors, in exchange for stocks and bonds—permanent or long-time credit liabilities of the company. All temporary or fluctuating needs are supplied by sale of short time or demand obligations,—current funds. The same funding arrangements are found by manufacturing companies, merchant houses and other business concerns. The capital of a concern is the amount of the liability incurred for procuring permanent equipment, whether this permanent equipment be factories, steel rails, or "cash." What is the permanent equipment of a bank? What are the instruments used by an institution whose business it is to supply railroads, manufacturing concerns and merchants with "current funds?" The form of "current funds" or "cash" most desirable to such a constituency is the demand credit of the bank itself. The one purpose for which a bank incurs capital liabilities, is to support its demand credits—is to enable it at all times to meet the demands of customers for money when demands are made. Money—legal-tender money—therefore is the chief

equipment necessary to a banking business. From experience it has been found that a bank located as is the Bank of England can at all times meet about three times as much demand credit as it has money in its vaults. In other words, the Bank of England is able to sell about three dollars of its credit for every dollar of capital invested. In many of the American cities, experience has shown that a bank may sell four or five times, in some places six or eight times as much of its demand credits as it has money in its vaults. In other words, with $100,000 of capital invested in *money,* the bank would be able to exchange its own demand credits for from $400,000 to $800,000 of commercial paper and other short-time interest-bearing obligations of its customers. The prime purpose of capitalizing a bank, therefore, is that of giving support to credit accounts sold to customers in exchange for deposits. A bank capital should be devoted to the purchase of gold coin or other forms of money that are legal tender for the payment of debts. If we are to have a system of assets bank-currency, the capital of a bank should be devoted to the purchase of gold. Then the bank should be compelled to keep up this equipment. To allow the legal tender money reserve of a bank to become impaired is negligence of the same kind as to allow the equipment of a manufactory or a mine to depreciate. Here the Government steps in when public safety requires it. Why should not the Government step in and compel a bank to keep up its permanent equipment when, by allowing it to become weakened, public welfare is threatened? For failure to safely construct a building or to keep it in safe repair, provide proper light, ventilation, fire-escapes, etc., penalties are imposed. Why should not a penalty in the form of a graduated tax be imposed on excess of demand liabilities of a bank when its reserve falls below the mark? The amount of capital might be regulated by law, but generally speaking, this would regulate itself as a matter of business advantage. A bank having a capital of only $50,000, represented in original subscription and surplus,—having only this amount as a guarantee of its credit—could not hope to win such confidence in the community as to do a $1,000,000 loan and deposit business. The amount of capital would at all times stand as notice of its ability; while a bank having a subscribed capital of $200,000, with only $50,000 in its vaults, is holding out to the public an ability which it does not possess. With each bank standing on its own financial

bottom, and with its full capital held as a reserve for the payment of its demand credit obligations, the financial atmosphere would be cleared of the fog that lends to speculation its life, and enshrouds commercial enterprise in darkness to find itself suddenly wrecked on the unseen rocks in the channels of trade.

Under our present credit money system the first, the most important duty of the Treasury to the public is one of providing and supporting *a uniform and stable currency,* adequate to the needs of business. Having established ourselves on a gold standard basis, while we retain the present system of credit money issues, the Government should strengthen rather than weaken its gold reserves. But beyond this it has a second duty in its relations to *commercial credit.* The Government through its income and disbursement comes into daily contact with the credit institutions of the country, and may, by inconsiderate action, materially weaken their reserves. In its relation as depositor it may have a strong regulative influence. The present practice of constantly enlarging government deposits in banks to their full capacity of giving security to the Government for issues, leaves the banks impotent to obtain aid when needed. The deposits of Government should move in harmony with excess of balances of revenue and expenditure. In brief, the Government should lend aid to commercial banks only in time of strain, which should be withdrawn after the tension is passed to force them back to doing a conservative business on their own capital for working base. The Government should keep deposits in banks sufficient for its own convenience in exchanges, these to be increased or decreased according to variations in revenue balances. Any change in circulation could thereby be made gradual and uniform and according to previously announced policy.

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